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State OF WASH.
UTIL. AND TRANSP.
COMMISSION



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October 18, 2019

VIA UTC WEB PORTAL

Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop S.E.
Lacey, WA 98503

Re: *In the Matter of Puget Sound Energy for an Order Authorizing Deferral Accounting and Ratemaking Treatment for Short-Life IT/Technology Investment* (Associated with the Get to Zero Program), Dockets UE-190274 and UG-190275

Dear Mr. Johnson:

On April 10, 2019, Puget Sound Energy (PSE) filed an accounting petition to defer costs related to its ongoing Get to Zero program (GTZ). The Company is seeking special accounting treatment for short-lived technology-related assets outside the context of a General Rate Case (GRC). Though the Company does not provide a specific, forward-looking cost estimate for the technology expenses, they claim that “over \$130 million of technology related investments”¹ associated with GTZ have been placed into service since the end of the 2018 Expedited Rate Filing, Dockets UE-180899 and UG- 180900. Public Counsel recommends that the Utilities and Transportation Commission (“Commission”) deny PSE’s petition for accounting treatment as it is considered during the October 24, 2019, Open Meeting.

I. BACKGROUND

Initiated in 2016, PSE describes GTZ as a program with the “ultimate objective of improving the end-to-end customer experience for all PSE customers.”² Namely, GTZ aims to minimize customer service operations handled through person-to-person interactions and “facilitate customers’ ability to do most, if not all, of their business with PSE through computers or smart phones [sic] and other devices.”³ As the Company seeks to automate more of its customer service processes with GTZ, it anticipates significant investments in technology resources. This accounting petition seeks to defer technology investments related to GTZ.

¹ Petition for Accounting Order, ¶ 9 (“Petition”).

² Petition, ¶ 5.

³ Direct Testimony of David E. Mills, Exh. DEM-1T at 9:1-3, *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy* (2017) (Dockets UE-170033 and UG-170034 (*Consolidated*)).

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II. APPROVING THE ACCOUNTING PETITION IS UNNECESSARY

Public Counsel's Recommendation

The Commission should deny PSE's accounting petition because the Company can seek to recover costs in its General Rate Case filings. Additionally, regulatory lag is an important regulatory tool that provides the Company with incentive to maintain fiscal discipline.

In PSE's petition, the Company indicates that it is incurring technology expenses at an unprecedented rate, due to the GTZ program. They argue that the "depreciation expense associated with the GTZ investments ... have a book life of 10 years or less."⁴ These relatively short-lived assets are in contrast to more traditional investments, such as generation plant and electric poles, which have a useful life of several decades. As a result of the short useful lives and time between GRC filings and effective rates, the Company claims that it experiences "earnings erosion."⁵ Though the Company is seeking to defer these costs, they acknowledge that "prudence and recovery of the deferred costs associated with these assets would be addressed in future regulatory proceedings."⁶

While it may be true that the Company is making significant investments in assets with relatively short depreciable lives, PSE controls the frequency with which it files its GRCs. The reality is that the expenses at issue, if prudently incurred, can almost certainly be included in customer rates before the asset reaches the end of its useful life in the context of a GRC. Ultimately, approving the petition would result in piecemeal ratemaking.

Rather than moving forward with this petition, the Company should seek prudence review for any of the technology assets that fall into the pro forma test year being considered in the current GRC, Dockets UE-190529 and UG-190530. In fact, PSE has included significant GTZ technology investments in the current GRC. For technology assets in service through December 31, 2018, the Company is requesting to include more than \$151 million in customer rates.⁷ PSE also hopes to include an additional \$32.5 million for investments that were completed through June 30, 2019, in rates.⁸ Public Counsel does not include these figures to determine whether these costs should be allowed or disallowed in the GRC at this time, but points to the \$183.5 million investments as evidence that the Company is already taking appropriate steps for prudence determination and significant cost recovery.

Additionally, the Company points to significant levels of regulatory lag created by short-lived technology assets. Regulatory lag, on its face, is not a negative thing. In fact, regulatory lag provides necessary incentive for the Company to institute fiscal discipline. Without regulatory lag (i.e. a scenario in which utilities recover all costs as soon as they are incurred), a utility has

⁴ Petition, ¶ 10.

⁵ Petition, ¶ 6.

⁶ Petition, ¶ 6.

⁷ Joshua J. Jacobs, Exh. JJJ-6, *Wash. Utils. & Transp. Comm 'n v. Puget Sound Energy* (2019) (Dockets UE-190529 and UG-190530 (*Consolidated*)).

⁸ *Id.*

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no incentive to ensure that their investments are prudent. Indeed, regulatory lag provides a critical ratepayer protection and is fundamental to cost of service ratemaking.

As a practical matter, it is also impossible to determine whether the expenses the Company seeks to defer truly have depreciable lives of 10 years or less. Public Counsel understands that software or other technology assets may indeed have a short life, but without the ability to examine individual costs, it is impossible to determine the full extent of assets that have a depreciable life of 10 years or less, or whether it would be more appropriate to extend the useful life beyond 10 years.

III. APPROVING THE PETITION WILL RESULT IN AN UNNECESSARY WINDFALL FOR SHAREHOLDERS

Public Counsel's Recommendation

The Commission should deny PSE's petition because ratepayers should not be required to pay carrying costs for costs that have not yet been determined to be prudent. To allow otherwise would result in shareholders receiving an unnecessary windfall.

According to the petition, the "deferral will include a carrying charge, on a monthly basis, at the current rate of return, which will cease when recovery begins in a future rate proceeding."⁹ If the petition is approved, ratepayers will pay 9.50 percent interest on multi-million expenses before the Commission has even determined prudence. The carrying costs will be returned to shareholders.

If the Commission determines that some or all of the GTZ-related costs are imprudent, ratepayers will have paid significant sums of dollars as a windfall to investors for these investments. Ratepayers should not be required to pay, and shareholders should not be able to earn a return on these investments until they are determined to be prudent and are included in rates. Moreover, the Commission has determined that carrying costs on deferral accounts is unnecessary.¹⁰

⁹ Petition, ¶ 12.

¹⁰ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-090704 and UG-090705, Order 11 ¶ 247 (Apr. 2, 2010) (rejecting request for carrying costs on deferral accounts for PSE's Mint Farm and Wild Horse expenses).

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IV. APPROVING THE ACCOUNTING PETITION IS PREMATURE

Public Counsel's Recommendation

The Commission should deny PSE's petition because the policy regarding accounting petitions is in question. Commission Staff seeks to change Commission policy surrounding the inclusion of short-lived technology assets in the ongoing Avista GRC. While this issue is being considered in another docket, it would be premature to defer costs in this proceeding.

Short-lived technology assets are currently under consideration in the Avista GRC, Dockets UE-190334 and UG-190335. In her testimony, Ms. Aimee Higby proposes an amendment to the materiality standard for pro forma adjustments to revenue requirements. Specifically, Ms. Higby suggests that the Commission establish criteria for determining whether a project meets a materiality threshold. She identifies the following two criteria:

1. 0.5 percent of net plant in service (i.e. the traditional definition of "major" project); or
2. A depreciable life of 6 years or less.¹¹

Ms. Higby's proposal specifically points to information technology projects as significant investments with relatively short depreciable lives as a primary driver for the proposed change.¹² Public Counsel acknowledges that Staff's proposal raises a critical issue for decision in the ongoing Avista GRC. While that issue is outstanding, it would be ill-timed for the Commission to approve PSE's petition, given the potential for policy clarification or change.

Public Counsel will be present at the October 24, 2019, Open Meeting and will be able to answer any questions regarding these enclosed comments. In the interim, questions may be directed to Corey Dahl, at (206) 464-6380 or CoreyD@atg.wa.gov.

Sincerely,

/s/ Corey J. Dahl
COREY J. DAHL
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CJD/CM

¹¹ Testimony of Aimee N. Higby, Exh. ANH-1T at 17:3-7, *Wash. Utils. & Transp. Comm'n v. Avista Corp.* (2019) (Dockets UE-190334 and UG-190335).

¹² *Id.* at 17:10-18:1, Figures 1 and 2.